



Indo-USAID Financial Institutions Reform and Expansion (FIRE-D) Project

The Indo-USAID FIRE-D project, an initiative of the U.S. Agency for International Development (USAID) and the Government of India, helps municipal and state governments develop sustainable urban environmental services and ensure that the poor have access to them.



Government estimates show that 88 percent of India's urban population is covered by water supply and 55 percent by sanitation facilities. But these statistics do not reflect the adequacy of the services or their accessibility to the poor.

About two thirds of solid waste generated by urban dwellers is collected by cities. Very little, however, is deposited into sanitary landfills; instead it is dumped into open pits.



India's urban population is now 285 million. In most cities, 20 to 45 percent of the residents live in slums.

Development Challenge

The future of India is inescapably urban. Cities have emerged as the prime engines of economic growth and generators of national wealth. Yet in a \$400 billion economy, one quarter of the country's one billion people live in poverty. The growing urban population outstrips the ability of municipalities to meet the demand for basic urban services such as water and sanitation. Chronic lack of resources, poor management capabilities, and the inability to develop sustainable infrastructure projects hamper local officials' efforts. The 74th Amendment to the Constitution, which began a process of strengthening municipal governments in 1992, requires local governments to improve management and delivery of these services.

Indo-USAID FIRE-D Project Goal and Approach

The Indo-USAID FIRE-D project,¹ a joint initiative of the United States Agency for International Development (USAID) and the Government of India, assists municipal and state governments in India to develop sustainable urban environmental services (water, sewerage, and solid waste) and to ensure that the poor have access to them. The project aims to achieve this goal by:

- increasing participation of municipalities, the private sector, and community organizations in the development and delivery of commercially viable urban infrastructure services;
- improving the ability of municipal and state governments, infrastructure agencies, and other urban professionals to manage urban growth, mobilize resources, and improve infrastructure services; and
- supporting development of a market-based urban infrastructure finance system.

¹ The "D" refers to *debt*—helping cities mobilize resources by issuing bonds, obtaining loans from financial institutions, or using other debt financing mechanisms for urban infrastructure. FIRE-R, recently re-launched as a distinct component of the FIRE project, aims to *regulate* and enhance transparency and efficiency of India's capital markets.

The FIRE-D project works with all three tiers of government in India: central, state, and municipal. Its policy advocacy work with central and state agencies aims to create a supportive environment for cities to make vital reforms. The project supports Indian cities with project development and financing, resource mobilization, decentralization, capacity building, and training. Assistance to a municipality often begins with identifying critical issues related to environmental infrastructure services and options for mobilizing



resources, managing expenditures, and strengthening municipal capacity overall. This process is accompanied by developing programs and projects to create services that are financially, socially, and environmentally sustainable.

Accomplishments

The FIRE-D project has achieved significant results since its launch in 1994. It has enabled urban policy makers and managers to better understand what works and what does not. By sharing these lessons with others, it has influenced local, state, and central government leaders and international donors. The project accomplishments include:

FIRE-D Project Partners

Ministry of Urban Development and Poverty Alleviation of the Government of India (GOI) provides technical, financial, and legal policy guidance to state governments.

United States Agency for International Development (USAID) is providing \$18 million for technical assistance and training from 1994-2003. Since 1994, USAID has provided \$55 million in urban environmental credit guarantees and additional guarantees are now available through the Development Credit Authority.

National Institute of Urban Affairs (NIUA) advocates for policy change, conducts research and training, and disseminates information in support of project objectives.

Housing and Urban Development Corporation (HUDCO) and Infrastructure Leasing and Financial Services (IL&FS), financial intermediaries, participate in structuring and financing commercially viable infrastructure projects.

TCGI and PADCO, U.S. contractors, manage the project and provide technical assistance, research, and training to project participants.

These, and many other partnerships, some of which are described in the following pages, help ensure that the lessons learned in the project will be institutionalized and spread nationwide.

Acceptance of the concept of commercial viability in delivery of urban infrastructure services

Sponsored by NIUA, *policy advocacy* workshops and meetings with state officials led to a change in public policy of urban environmental service delivery from a social welfare approach to one based on sustainable financial viability. Efforts of the project partners led to the adoption of FIRE-D recommended policies and programs by central, state, and local governments. For example, the central government encouraged reforms based on this approach in both the Tenth Five-Year Plan and the 2002-2003 budget. A consensus now exists among urban policy makers at all levels that urban environmental services should be financed on the basis of commercial viability.

The project's *technical assistance* helped the cities of Ahmedabad, Tiruppur, Pune, and Kolhapur design commercially viable and comprehensive water supply and sanitation projects, some of them with private sector participation. For example, IL&FS is assisting the state of Tamil Nadu and the Tiruppur Exporters Association to structure and implement the first water supply and sewerage project to be built and managed by a private operator in India. The FIRE-D project also helped partners shift focus from financing large new water and sewerage projects to improving existing systems. More emphasis is now placed on the role of non-profit community organizations, as well as the private sector, to complement public efforts to extend services to all, including the poor. The project's technical assistance efforts have concentrated on the more urbanized states of Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh, Punjab, and Madhya Pradesh.

Accomplishments



Development of a structure for municipalities to access domestic capital markets through municipal bonds

Accomplishments



Working closely with the Credit Rating Information Services of India Ltd. and ICRA Ltd., the FIRE-D project helped introduce a municipal credit rating system to India in 1996. Then, the project helped the Ahmedabad Municipal Corporation issue the first municipal bond in India without a state guarantee in 1998. Subsequently, 30 other Indian cities have obtained credit ratings and seven of these have issued bonds for infrastructure. Ahmedabad used the bond proceeds and a HUDCO loan guaranteed by USAID to build the Raska water supply system that serves 60 percent of the city's people.

The FIRE-D project also assisted the Ministry of Urban Development and Poverty Alleviation to develop guidelines for tax-exempt municipal bonds. In April 2002, Ahmedabad issued India's first tax-exempt municipal bond to complete its water and sewerage plan, extending



these services to all its 4.5 million residents. At the same time, the GOI increased the limit of municipal tax-free bonds from Rs. 200 crore (US\$ 43 million) during 2001-02 to Rs. 500 crore (US\$ 106 million) in 2002-03.

Introduction of urban management reforms, particularly financial management and accounting reforms

The FIRE-D project introduced municipal environmental status reports in the state of Maharashtra and helped cities prepare corporate investment plans. The state of Tamil Nadu, with the assistance of the project and the Institute of Chartered Accountants of India (ICAI), introduced double entry accrual-based accounting in all of its 109 municipalities. Tamil Nadu is the first state in India to make this change from cash-based accounting statewide.

The FIRE-D project helped ICAI produce a technical guide on municipal accounting to spur reforms in other states. The project is working with the state of Maharashtra to develop an accounting manual for its 243 urban local bodies.



Accomplishments



Development of a state-level policy framework for water and sanitation services and a national policy framework for improving solid waste management

Accomplishments



With FIRE-D project assistance, the state of Maharashtra's Water Supply and Sanitation Department and its Sukthankar Committee developed a comprehensive new framework for improved water and sanitation services. The Committee proposed an independent commission to regulate water tariffs and service standards.

The Committee also proposed a new capital grants program for water and energy audits and rehabilitation to encourage greater efficiency of existing systems.

Finally, the FIRE-D project helped the Supreme Court-mandated Technical Advisory Group prepare its report on financing and private sector participation in solid waste management.



Sharing of lessons learned through a training network, study tours, city managers' associations, reports, and a web site

The FIRE-D project and NIUA created a network of 15 regional training institutions to strengthen the capacity of municipal officials and elected representatives. About 3,000 city officials and representatives have participated in nearly 120 short-term training programs. The project also conducted 12 state-level workshops in 2001, and enabled 29 officials to attend overseas training courses and conferences in the past two years.

The FIRE-D project helped establish the City Managers' Association of Gujarat, which strives to build professional management capacity of local officials.

The project documents and disseminates lessons learned through a newsletter, *Project Notes*, reports, and the Internet. It supports NIUA's quarterly newsletter, *Urban Finance*; 13 issues have been published since 1996 with a circulation now near 1,200. It produced 28 *Project Notes* that are available online at <www.dec.org>. NIUA conducted 13 studies of best practices in urban management and resource mobilization. The project prepared, contributed to, or funded 75 feasibility studies, policy papers, assessments, and other reports.

With project support, NIUA developed an online Urban Information Resource Center, <www.indiaurbaninfo.com>.

Accomplishments



Future Directions

The FIRE-D project will continue to play a leading role in helping create livable cities as it spreads word of innovations and applies lessons learned throughout the project's expanding network. To improve municipal governance and introduce reforms in the delivery of urban services, the project will:

Help cities develop sustainable environmental infrastructure services by introducing a consumer and commercial orientation

Introducing a consumer and commercial orientation requires cities to improve operational efficiency, introduce tariff reforms, shift from acting as service providers to acting as facilitators, create autonomous and accountable utilities, and involve the private sector. Up to now, the FIRE-D project worked with selected cities to develop three- to four-year management contracts with private operators and community contractors. In Sangli and elsewhere, FIRE-D will encourage cities to move from management contracts to long-term concession contracts with private companies to improve infrastructure services.

Strengthen municipal financial viability with emphasis on resource mobilization of tax and non-tax internal resources

A strong revenue base is a precondition for cities to assume debt for infrastructure services. The FIRE-D project will continue to help the Indore Municipal Corporation increase revenues, including optimizing the use of existing assets. To mobilize resources, cities must improve management of municipal funds, tax and tariff collection, and budgeting and accounting, which in turn will enhance municipal credit worthiness. The project will continue to support ICAI as it develops accounting standards for local governments and accrual-based accounting manuals to help states—including Maharashtra and Tamil Nadu—introduce new systems. The project also will help cities introduce independent audits and assist a special task force, set up by the Comptroller and Auditor General of the Government of India, institute improved municipal accounting nationwide.

Demonstrate a targeted strategy to improve access of the poor to urban infrastructure services

The FIRE-D project will work in partnership with the Cities Alliance² to achieve its vision of “cities without slums.” Activities will start in the cities of Ludhiana and Sangli using a three-pronged approach:

² A global alliance of cities and their development partners committed to improving the living conditions of the urban poor.

- mobilize demand in under-served settlements;
- help the urban local body improve services and provide secure land tenure; and
- coordinate internal and external resources to finance the required infrastructure.

In addition, the FIRE-D project will support the training institutions in the NIUA network to develop the capacity of local officials to improve access of the poor to urban services.

Promote state and central policy reforms in water and sanitation

State-level activities include: promoting policy and legal reform; restructuring water boards; establishing regulatory frameworks for tariff setting and service standards; creating new incentives for urban reforms; and preparing guidelines for state finance commissions. The project will promote a model Municipal Act for state enactment that will clarify municipal powers and responsibilities. At the central level, the FIRE-D project will continue to work with the Technical Advisory Group to implement its solid waste management recommendations.

Expand the market-based infrastructure financing system

The FIRE-D project will continue to support the central government in developing long-term market financing for the sector. At the state level, it will support establishing new financial entities and restructuring existing financial intermediaries, such as the Tamil Nadu Urban Development Fund. This support will facilitate cities' ability to obtain financing directly from the capital market, including pooling arrangements for small and medium towns. Under USAID's Development Credit Authority guarantee program, the project will support development of market-based credit enhancement measures, including guarantees and measures to lengthen the term of the instrument. It will continue efforts to improve the regulatory framework for municipal borrowing.

Increase efforts to strengthen municipal capacity and disseminate lessons learned

The FIRE-D project will strengthen and expand the reach of the network of regional training institutes, support the growth of city managers' associations, and help NIUA expand its online India Urban Information Resource Center. It will continue to share information and best practices through periodicals, reports, and case studies to facilitate reform and improved management.

For more information, contact:

TCGI-PADCO FIRE-D Project

E-3/4, Vasant Vihar
New Delhi 110 057, India
Tel: (91-11) 614-3551,
615-1081 to 83
Fax: (91-11) 614-1420
Email: savita@indo-usfired.com

National Institute of Urban Affairs

I & II Floor, Core 4-B
India Habitat Centre
Lodhi Road
New Delhi 110 003 India
Tel: (91-11) 461-7543 or 461-7517
Fax: (91-11) 461-7513
Email: niua@vsnl.com
www.niua.org



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